

United States Defense Expenditures Abroad

THE U.S. Government's defense expenditures abroad for goods and services during the last three years have averaged about \$3 billion annually, despite considerable variation in the amounts received by individual countries and in the purposes for which the funds were spent.

Defense outlays totaled about \$3,050 million in calendar year 1960 and comprised over a seventh of all U.S. purchases of foreign goods and services. The annual rate of expenditures in the first half of 1961 was about the same, but in the next 3 months the rate fell by about \$150 million. A major part of this cutback occurred as a result of various measures taken by the Government in 1960 and 1961 to reduce the overseas costs of its operations. Outlays in the final 3 months of 1961 probably increased with the recent augmentation of our military forces abroad, but the total for 1961 should not vary significantly from 1960, because of the efforts of the military agencies to hold down foreign outlays at a time when U.S. military forces overseas have increased.

The total cost to the Government of defense operations overseas are, of course, much larger than the amounts which provide income to foreign countries. The transactions discussed here and shown in table 1 are comprised of direct purchases of foreign goods and services for use by our own defense establishment; equipment bought abroad and transferred as aid to foreign countries; the overseas outlays of military and civilian personnel and the post exchanges which sell to them; the foreign costs of U.S. firms under contract with the Department of Defense; and contributions to the multilateral programs of the North Atlantic Treaty Organization and related military alliances.

In the early postwar years such earnings enabled foreign countries to import vitally needed products from the U.S. In recent years they have been an important element in the rise

of foreign gold and liquid dollar assets, particularly in Western Europe.

All defense expenditures do not furnish dollar income to foreign countries for they include sizable payments in foreign currencies accumulated by sales of agricultural products, excess property, and other goods and services. Additional amounts have been received as counterpart funds under grant programs and as payments on loans and other credits. The total of all such currencies spent for military functions in 1960 was the equivalent of over \$150 million. These disbursements are included in the overall figures on defense expenditures abroad, but are offset elsewhere in balance of payments statements and do not affect the overall balance on all of our foreign transactions.

Five countries receive major share

As shown in table 2, nearly two-thirds of defense expenditures in 1960 was spent in five countries. German receipts were far higher than those of any other country, comprising about a fifth of all outlays. Japanese receipts were in second place and represented an eighth of the total. Outlays in Canada were nearly as large, although they have been falling slowly since their peak in 1958. Disbursements in the United Kingdom and France were still sizable despite their long-term decline.

Most expenditures in Germany began to rise rapidly in 1955 when German contributions to the United States under the "Allied support payments" agreement began to decline. From April 1, 1952, through May 5, 1955, Germany had contributed the equivalent of \$762 million in goods and services annually to the United States (\$748 million to our forces and \$14 million to the Allied High Commissioner) without charge. In the following 2 years the amounts were reduced to \$350 million and \$155 million respectively. The agreement in June 1957 provided for a contribution of \$7 million which concluded the contribu-

tions under occupation and support costs arrangements.

Our defense outlays in Germany reached \$664 million by 1959. In 1960 they fell to \$641 million, and in the first half of 1961 to an annual rate of about \$600 million. During the second half of the year, expenditures are expected to increase due to measures taken in light of the Berlin crisis.

The decline in the first half of 1961 was brought about principally by measures taken by the Department of Defense to reduce procurement abroad of materials and supplies, equipment, and services. Under these regulations procurement is normally returned to the United States when it is estimated that the cost of domestic supplies and services (including transportation and handling charges) would not exceed the cost of foreign supplies and services by more than 25 percent.

The reduction in expenditures in Germany in the first half of 1961 would have been greater but for the revaluation of the deutsche mark which caused a 5 percent increase in the cost of purchases there. The deutsche mark was revalued upwards in March in order to

Table 1.—Defense Expenditures Abroad for Goods and Services by Major Category¹
(Millions of dollars)

	1957	1958	1959	1960	Jan.-June 1961
TOTAL	3,216	3,425	3,107	3,048	1,620
Expenditures by troops, civilian personnel, post exchanges, etc.....	881	890	888	873	428
Foreign expenditures for construction.....	372	331	245	176	90
Contributions to the NATO multilateral construction program.....	43	61	58	117	42
Contractual services.....	610	772	703	774	405
Offshore procurement under military assistance programs.....	371	212	160	141	68
Purchases of equipment.....	55	49	30	44	20
Purchases of other materials and supplies.....	832	1,110	802	924	400

1. Excludes cash grants under special military programs, such as programs originally defined as direct force support and administered by the International Cooperation Administration.

2. Includes expenditures under military assistance programs for offshore procurement, including offshore procurement under the Lisbon Agreement; the weapons production program; and the mutual weapons development program.

hold down West Germany's high trade surpluses.

Expenditures in Japan have varied little in the recent postwar period, averaging \$400 million a year in 1958, 1959, and 1960. Outlays there in 1953 reached nearly $\frac{3}{4}$ of a billion dollars, the highest ever recorded for a single country. Disbursements began to fall in the fourth quarter of that year after the Korean armistice and in 1954 they were \$570 million. The decline was more gradual from 1955 through 1958. During this period the support of our troops in Japan was becoming more costly to us as the amount of yen furnished by the Government of Japan for the support of U.S. security forces declined.

These funds had been made available to the U.S. Government by agreement without charge beginning April 1952 when they replaced about half of the value of goods and services provided by the Japanese under occupation charge procedures during a base period preceding the agreement. Yen contributions, which amounted to the equivalent of \$155 million in the year ended in April 1953, were nearly as high in the following year, but declined each year thereafter, until they were completely suspended in the first part of 1960.

Overseas military expenditures

Foreign outlays by the U.S. military services for their own use were \$2.3 billion in 1960, about three-fourths of total defense expenditures abroad. Other defense expenditures included over \$330 million spent under military assistance programs, comprised of \$141 million for offshore procurement, about \$75 million for administration, construction, repair, training, and other services, and \$117 million contributed to the NATO multilateral construction program. Defense expenditures by agencies other than the Department of Defense totaled about \$370 million.

Troop outlays remain high

Nearly 30 percent of defense outlays abroad in the last 3 years has consisted of purchases in foreign countries by U.S. personnel and their dependents; outlays of the post exchanges, clubs, etc., which service them; and the direct hire of foreign personnel by the military services.

The data included in table 1 for this category show relatively little change over the years, since declines in troop strength abroad have been offset by U.S. military and civilian pay raises, by increased numbers of dependents living overseas, and by pay raises for foreign personnel.

Foreign purchases of goods and services by the post exchanges and similar agencies were nearly \$390 million in 1960, about 45 percent of the total of this category. Their proceeds from sales of U.S. and foreign goods and services were over \$680 million in that year.

The earnings of each country from U.S. troop and civilian out-of-pocket disbursements vary widely, depending, of course, upon the deployment in the country or in neighboring areas, the housing available for personnel and their dependents, and the ability of the foreign economy to meet the requirements of our personnel or to attract purchases by post exchanges. Where the domestic market can fulfill only a little of the demand, military personnel and their families buy mostly in the commissaries, post exchanges, and other establishments operating within the military economy, and a relatively large part of these purchases are of goods produced elsewhere.

In some countries where few or no U.S. personnel are stationed, considerable earnings have resulted from post exchange purchases and the outlays of Navy and other personnel on a leave status. In the case of Panama, large amounts are realized from the earnings of local citizens employed in the Canal Zone and from expenditures in Panama by U.S. servicemen, U.S. civilian employees, and their outlet stores located in the Panama Canal Zone.

Post exchange purchases falling

Purchases abroad by the post exchanges for resale were cut back sharply in December 1960 as part of the effort to reduce U.S. Government spending overseas because of the balance-of-payments deficit problem. This measure effected some foreign exchange savings in 1961, particularly where items had previously been purchased in countries other than where they were

to be sold by the post exchanges. Nevertheless, our personnel in some areas continued to buy foreign commodities, sometimes at newly established shops near our installations, and often at higher prices than those previously paid by the post exchanges. New directives were issued in August 1961 permitting offshore post exchanges and commissaries to purchase locally available commodities. However, these commodities must be priced for sale as high as the prices prevailing in the local market. The resulting higher profit margins on foreign goods enables the post exchange system to cut profit margins on goods of American origin and thus encourages personnel to purchase U.S. manufactured products.

Construction declines

Foreign earnings as a result of the construction of airfields, naval bases, housing, and other facilities for our own use overseas began to decline in 1958. In 1960 they amounted to \$175 million and were less than half of their peak in 1957 when they represented

Table 2.—Defense Expenditures Abroad for Goods and Services by Major Countries¹
(Millions of dollars)

	1957	1958	1959	1960	Jan.-June 1961
TOTAL	3,215	3,435	3,187	3,625	3,520
Western Europe.....	1,838	1,905	1,070	1,631	780
Belgium-Luxembourg.....	31	25	20	20	0
Denmark-Greenland.....	31	40	49	50	17
France.....	306	371	300	275	157
Germany.....	470	680	684	641	304
Greece.....	20	15	14	17	10
Iceland.....	13	17	15	14	8
Italy-Trieste.....	165	117	117	106	40
Netherlands.....	41	28	30	37	35
Norway.....	14	17	10	18	8
Spain.....	57	92	78	80	27
Turkey.....	36	44	35	50	36
United Kingdom.....	488	300	289	286	127
Other countries.....	24	38	26	32	17
Canada.....	288	443	421	370	107
Latin American republics.....	66	63	46	60	30
All other countries.....	1,634	1,064	958	970	613
Aruba and Curaçao.....	75	87	87	80	30
Bahamas.....	40	40	30	30	23
Bermuda.....	10	12	14	13	6
Japan.....	405	416	381	406	180
Korea.....	68	68	94	90	47
Morocco.....	47	31	27	26	11
Pakistan.....	13	16	16	13	5
Philippines.....	67	53	47	41	22
Ryukyu Islands.....	68	81	63	74	44
South Arabia.....	40	43	44	43	25
Taiwan.....	12	16	20	21	12
Other countries.....	140	169	148	135	105

1. Excludes cash grants under special military programs, such as programs originally defined as direct force support and administered by the International Cooperation Administration.

over a tenth of all defense disbursements.

Most construction expenditures are in dollars made available from regular military construction appropriations. However, many units of family housing, and community and other facilities have been purchased with the local currency proceeds of sales of surplus agricultural commodities. Such expenditures totaled the equivalent of about \$80 million by June 30, 1961, excluding the major construction programs in Spain. In that country the foreign cost of our major Air Force and Naval bases has been paid for in pesetas furnished to us by the Government of Spain as the counterpart of our Spanish aid programs or in pesetas acquired through the sales of surplus cotton. The total of these currencies spent in Spain was the equivalent of over \$150 million by June 30, 1961.

For many years the United States and Canadian Governments have jointly financed the construction and maintenance of the radar lines extending across Canada. Canadian earnings as a result of our various construction outlays, however, fell in 1959 to less than a half of the amount in 1958 and since then have remained at about the same level.

U.S. contributions to the multilateral construction program of NATO rose to \$117 million in 1960. Under this jointly financed program construction projects have included airfields, communication facilities, radar warning installations, petroleum pipelines and storage facilities, and training installations. U.S. contributions to these projects totaled about \$750 million through June 1961.

Contractual services remain constant

In the last 3 years expenditures abroad for contractual services have shown but little variation. These expenses, which now bear a direct relationship to the number of troops deployed in each country, are incurred primarily for the operation and maintenance of our overseas bases. They include the overseas cost of transportation, communication, rents, utilities, repair and similar services. About one-third of the total represents payments to the Governments of France, Germany, Japan, Korea, Morocco, and the United Kingdom for employ-

ment of foreign nationals under "indirect hire" arrangements whereby the host nations pay salaries directly to their citizens who work for U.S. military agencies.

Procurement of goods

Procurement abroad of supplies and equipment for our own use or to be transferred to our allies was still over \$1.1 billion in 1960 and continued at this annual rate in the first 3 quarters of 1961, comprising more than a third of our overseas expenses. These transactions have been declining since 1958 when they totaled nearly \$1.4 billion.

Procurement abroad under the military assistance offshore procurement programs totaled over \$3.1 billion from the beginning of the program through June 1961. These outlays dropped off sharply for several years after 1955 when they had reached their peak of \$640 million. They were down to \$150 million by 1959 and since then have been slightly less. France earned more than a third, the United Kingdom over a fourth, and Italy a sixth of total expenditures under these programs. Purchases in Europe totaled almost \$2.8 billion representing nearly 90 percent of all such expenditures. Japan has been the only other major recipient.

Despite a downturn since 1958, procurement of supplies and equipment for our own use amounted to \$968 million in 1960 and still maintained about the same ratio to defense expenditures overseas as in the prior 2 years. About \$365 million of this amount was spent by agencies other than the military departments.

Purchases of jet fuel, gasoline, and other petroleum products were a major part of foreign outlays by the military services in 1960, comprising about a third of procurement initiated for their own use. Such outlays were concentrated in Western Europe, Bahrain, Saudi Arabia, Aruba, Curacao, Trinidad, and Venezuela where petroleum products were acquired from foreign affiliates of U.S. firms as well as from foreign-owned corporations. These purchases included supplies imported into the United States.

About \$95 million a year is spent abroad by the military services for fresh foods to be supplied to troops

or sold in commissaries. Other purchases of supplies overseas by the military agencies are composed principally of the many items necessary to operate our overseas establishments.

Sales to Germany to rise sharply

Military receipts from the sale of goods and services to foreign countries were slightly over \$300 million a year from 1958 through 1960, but were larger in the first 6 months of 1961 when the annual rate was \$440 million.

Three-fourths of these receipts represented the value of military equipment shipped from the United States, stocks transferred abroad, and services provided under the mutual security military sales program. The value of goods and services made available under this program was about \$1.8 billion through the end of June 1961.

The first shipments of military equipment to Germany under the mutual security military sales program began in 1957 and the value of goods and services transferred to Germany in that year was \$195 million. Transfers in the 3 following years averaged \$124 million a year, but increased in the first half of 1961 when the annual rate was nearly \$175 million. The cumulative amount was about \$650 million at the end of June 1961, over a third of all transfers under the program. By this time the German Government had deposited \$1.1 billion with the U.S. Treasury and nearly \$500 million was available for future shipments to Germany.

Under an agreement concluded late in 1961, the balance of payments impact of disbursements for our forces stationed in Germany is expected to be offset by much larger purchases of supplies and equipment by the Federal Republic of Germany from the U.S. Government and from private U.S. suppliers. Under this agreement the German armed forces will also pay for access to the logistic system of depots, communications, and supply and maintenance facilities established by U.S. military forces in Germany since 1945.

At the present time the U.S. Government is endeavoring to increase sales of military equipment under the mutual security military sales program to other countries.